Introduction of Islamic finance in Brexit time, some tips for the West

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Abstract: *The characteristics of some more developed Islamic countries coincide with many western states, including Britain. Brexit and financial uncertainty generated could be overcome through the help of Islamic finance. Islamic banks with a strong propensity to CSR resist more to financial crises and develop more. The elements of strength and weakness are analyzed in the article provides some tips for its development in OECD countries. The analysis related to the use of financial instruments that can slow down the development and the possibility of adopting Islamic finance is considered in the analysis.*

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1 Introduction

1.1 NPM, between system and market characteristics

The OECD countries, as well as Japan and the US, have undergone radical changes related to New Public Management on the macroeconomic system and the market Hood (1995). In recent years, Islamic countries are also undergoing numerous changes with the introduction of the same principles as the new public management (Mansour, 2017). These changes influence the ability and the possibility of hypothesizing that in systems with similar characteristics it is possible to apply financial instruments developed more in Islamic countries than in Western countries. The two models of New public management, the US with a model of reinvention of government movement (Osborne and Gaebler, 1992) and the UK is oriented to business management (Hood, 1995; Osborne, 2010). Both find the enhancement of the market in addition to the management of the private sector and bureaucratic tools. The development of policies based on new public management oriented to the evaluation of citizens in the free market finds the first common point between the Western states and those in which Islamic finance has developed. Heritage produces an annual index of Economic Freedom" ranking in all states in term of their overall scores in these pillars. These pillars are decomposed into composite elements: law (property rights, freedom from corruption), government size (fiscal freedom, government spending); regulatory efficiency (business freedom, labour freedom, monetary freedom); and openness market (trade freedom, investment freedom, financial freedom). These are the elements used to gauge the achievement of a country in each pillar. It is possible to divide the states into five groups: "free" mostly free, "moderately free," "mostly unfree" and finally "repressed." Table 1 shows and compares the degree of freedom of high-freedom countries (Hong Kong, Singapore), old established market economies (USA, United Kingdom) and some Middle Eastern and North African countries for the period 1996-2018.

Table 1 Comparison of overall scores in the Index of Economic Freedom with selected high archivers, Established Market Economies and Some MENA Countries (1996 – 2018).

Year (Score)	**1996 Score**	**2000 Score**	**2005 Score**	**2010 Score**	**2015 Score**	**2016 Score**	**2018 Score**
Country							
UAE	71.6	74.2	65.2	67.3	72.4	72.6	77.6 (10)
Hong Kong	90.5	89.5	89.5	89.7	89.6	88.6	90.2 (1)
Singapore	86.5	87.7	88.6	86.1	89.4	87.8	88.8 (2)
UK	76.4	77.3	79.2	76.5	75.8	76.4	78 (8)
USA	76.6	76.4	79.9	78.0	76.2	75.4	75.7 (18)
Bahrain	76.4	75.7	71.2	76.3	73.4	74.3	67.7 (50)
S.Arabia	68.3	66.5	63.0	64.1	62.1	62.1	59.6 (98)
Qatar	NA	62.0	63.5	69.0	70.8	70.7	72.6 (29)
Kuwait	66.1	69.7	64.6	67.7	62.5	62.7	62.2 (81)
Oman	65.4	64.1	66.5	67.7	66.7	67.1	61 (93)
Egypt	52.0	51.7	55.8	59.0	55.2	56.0	53.4 (139)
Jordon	60.8	67.5	66.7	66.1	69.3	68.3	64.9 (62)
Israel	62.0	65.5	62.6	67.7	70.5	70.7	72.2 (31)

Source: a reworking of https://www.heritage.org/index/ranking

The United Arab Emirates, Qatar, and Israel rank among the most free countries together with countries such as the USA and the UK. The macroeconomic system according to the highlighted aspects sees the same characteristics between middle and eastern countries and North Africa and countries with old established market economies. Moreover, in these countries policy of privatization, private-public partnerships and outsourcing have been launched for some years with the development of management tools linked to the privatization of the public sector in the management of the activities (Mansour, 2016). After observing that the context and the change of the systems in the different countries are comparable, it is important to underline the importance of the liberalization of the market. The liberalization of the markets in the Islamic finance industry is associated with the development of the business and encourages institutions to choose Islamic banking systems (Khiyar, 2012; Zaher & Kabir Hassan, 2001). This allows the growth of local communities and international financial institutions. This public fund based on religious principles allows an improvement of the economic system in assistance to what the banks do.

1.2 Islamic finance

Although policymakers and policymakers reject the benefits of Sharia-compliant financial products, the positive long-term fallout and improvement for a segment of the population are evident as a change of prove race. The first Islamic bank can be found in 1975 in the bank of Dubai Islamic Bank (with a few banks that subsequently spread in the United Arab Emirates, Egypt, the Cayman Islands, Sudan, Lebanon, the Bahamas, Bosnia, Bahrain, and Pakistan) then spread to the west (El-Qorchi, 2005; Gait & Worthington, 2007; Sahid et al., 2015). Islamic banking has an exponential growth in recent years; in 2005 it operated in 55 countries with deposits amounting to 100 billion dollars (Shahinpoor, 2009). Between 2006 and 2011 the total assets of Sharia compliant financial institutions had doubled to USD 900 million (Beck et al., 2013). Many authors define Islamic finance as a definition linked to religion. They define accounting as part of the Islamic doctrine, the Qur'an (believed by Muslims to be the word of God revealed to the Prophet Muhammad) and Sunnah (the acts and sayings of the prophet, as transmitted through traditions known as hadith (Napier, 2009). The two factors that distinguish Islamic finance from the Western one is the prohibition of riba or usury in the form of high interest and the fundamental duty of all Muslims to pay the religious levy zakat. Muslims annually pay zakat, a fee, to assist the poor. This is used to and increase the financial capacity of many, economic capacity, education, religion, and assistance to people right. The law that prohibits both the receipt and the payments of the monetary interest is prohibited by Islamic law, called Sharia (Beck et al., 2013; Zaher & Kabir Hassan, 2001). Sharia promotes equality and fairness for all members of society by emphasizing ethical, social and religious factors. Muslims have a special responsibility towards the poor and are appointed God to be God's stewards to maintain balance in the universe (Shahinpoor, 2009). Zakat is defined as an obligatory duty on financially secure Muslims to donate or pay a specific percentage of his or her wealth to the poor in society (Amuda, 2013). Contemporary writers defined accountability for Islamic life “Islam is an Arabic word meaning submission or surrender, understood to mean to the will of God specifically.” Moreover, the Qur'an account appears as a judgment and balancing defined by Allah of reality (Qur'an, sura al-nisa 4:86). According to a primary definition of responsibility, the community, investors, and people are based on their ability of the soul based on good and bad. This principle of the judgment of God given to things is also identified in Western religions such as the Catholic (Aho, 2005). The accounting system on which Islamic banks are based also currently sees the application of the double entry. This system developed after the post-colonial period as an exchange of the West and the East, although it is possible to see an earlier influence of simple accounting systems in trade towards the West. The Islamic countries before colonialism had an accounting system like that of charitable foundations since the accounting was linked to activities carried out by religious bodies. The accounting system was known only by the nobles, from the colonial period it is spread and known to help in the local administration. (Napier, 2009). Currently, accounting systems are the same between Western banks and Islamic banks. Starting from the literature and the analysis of the context it is possible to identify the possibilities that Islamic finance can have in Western countries in the future. Can Islamic Culture bring progress in Western countries and in England after Brexit? A new system of banking has emerged known as Profit Loss Sharing (PLS) most likely in response to the interest-based banking system debate, but more due to religious belief in the Islamic community. Currently, this system is integrated into over 60 countries through the world (Zaher & Kabir Hassan, 2001). The Muslim economists argue that the PLS system provides for cohesion between social classes because financing is equally available to anyone with a productive idea. Some European banks have already invested in Islamic banking, these are Citibank, Bank of America, Commerzbank, Deutche Bank, Merril Lynch, ABN AMRO, BNP Paribas, Pictet & Cie, UBS, Standard Chartered, Barcleys, HSBC, Royal Bank of Canada, American Express, Goldman Sachs, Kleinwort Benson, ANZ Grindlays and Flemming (Zaher & Kabir Hassan, 2001).

1.3 Brexit and uncertaintly for the future

The first negative effects can already be seen in the Brexit vote in various sectors, including travel, banking and leasing sectors (Remiah et al., 2017). But we do not yet know the answer that the market will have when the Brexit has its effects completely. The effects of instability created by Brexit according to statistical analyzes can generate instability over time in financial markets, this instability in addition to affecting England can also affect Europe with a greater effect on Greece, Ireland, Italy, Portugal and Spain (Belke et al., 2018). The first thing to note is that there has been increasing talk of preparations being made for 'no deal' when it comes to Brexit. While some feel this is a negotiating tactic on the British side to try to convince the EU that we could walk away from talks if progress isn't made – others have raised concerns that this is apparently being considered. Recently, the Organisation for Economic Cooperation and Development (OECD) warned that leaving the EU with no deal could wipe £40 billion off the UK's GDP growth by the end of 2019 (Kierzenkowski et al., 2016). 'No deal' is the most dramatic of outcomes and would probably lead to the most upheaval for the markets as it would leave uncertainty over the trade of goods across the border, the passage of flights in and out of the UK and the status of large numbers of people in and out of the UK. No-one really knows what this would mean for the UK's ability to sell into Europe or vice-versa – but this is a 'cliff edge' that businesses and many politicians want to avoid. Yet the OECD's report isn't just about gazing into a crystal ball and warning of the impact of a 'no deal' on the UK economy. It also spells out several ways in which we can already see the impact of the vote. As Business Insider notes, this includes:

- Since the referendum in June 2016, UK GDP growth has fallen well behind the OECD and EU average.

- While the FTSE 100 and FTSE 250 have grown since the summer of 2016 – their performance is skewed by the proportion of overseas firms listed. When looking solely at UK-focused stocks, these can be seen to have underperformed significantly by comparison.

- Labour productivity has fallen even further behind rivals.

- Inflation has risen and reduced 'real incomes.'

- The fall in the pound after the vote has not yet boosted exports.

Many of the least well-off parts of the UK rely heaviest on EU money – which serves to highlight the over reliance on London. Many feel the sluggish GDP, UK stock performance, labour productivity, inflation, a weak pound, and London reliance will only be exacerbated when the UK finally leaves the EU in 2019. In the current British context, there are 11 Islamic banks present in the area (Standard Chartered, HSBC, Al Rayan Bank, Rosette Merchant Bank, Barclays Capital, Royal Bank of Scotland, Gatehouse Bank, QIB UK, Islamic Bank of Britain, European Islamic Investment Bank (EIIB), Bank of London and the Middle East (BLME). The English context presents itself as a thriving context to evaluate the effects of the pros and cons of Islamic finance. Islam is already the second religion in England, with a population of almost three million, about 4.5% of the total United Kingdom, this factor can certainly affect both the market and the response to the need of millions of consumers ready to take advantage of a compliance system with the Islamic faith. But the presence of a Muslim community started in 1386 when Queen Elisabeth I asked the Ottoman sultan for assistance with the Spanish army. The increase in trade linked first to the East Indies company then to the opening of the Suez Canal in 1871 increased the search for workers which led to an increase in Muslims with the construction of the first mosque in 1860 in Cardiff. The greatest increase of Muslims in England, however, occurred immediately after the Second World War that for reconstruction reasons favoured the establishment of many communities from India, Bangladesh, and Pakistan. In recent years the importance of the United Kingdom has been reiterated with the statement of the financial center of London as the hub of Islamic Finance in the West and for the number of issues of sukuk outside the Arab countries. The English tax system currently does not favour the development of Islamic banks and is based on four assumptions. The same law applies to all citizens regardless of their religion. The state is not a judge on religious matters. The legal enforceability of a contract should not depend on whether it is compatible with Sharia. Individuals and society should have the right to organize any form of the commercial enterprise provided; it is not in breach of the law. The Home Purchase Plan envisaged the progressive double imposition of the "Stamp Duty land tax" of Islamic financial instruments. Currently, Islamic financial instruments are still disadvantageous in the system, effectively disconnecting Islamic issues in the fiscal and financial matters (Biancone, 2017).

2 Research question

The study aims to analyse the relevant criteria identified in the literature, trying to highlight strengths, weaknesses, similarities, and differences useful for assessing the development of Islamic finance in Western countries and in England. The analysis conducted tries to provide some tips by evaluating the effect on the system of some aspects such as CSR. The analysis of reality and context allows us to focus our attention on the existing applicable theory (Mintzberg, 2005).

2.1 Strengths

According to Mannan (1986) interests can lead to a reduction in industrial development because the high transaction costs lead to a lower possibility of hiring new laboratories thus increasing unemployment. According to others, the economic crisis of the last few years has also been caused by the creation of interests (Venardos, 2005). According to what highlighted the Islamic finance should eliminate the problem of riba. Furthermore, according to the Islamic economic analysis, social stability and economic growth require oneness and a sense of community (Bjorvatn, 1998). It is highlighted how ethical principles can lead to development. Furthermore, sharing the investment risk eliminates the problem of adverse information between banks and their customers, which is present in Western banks. Furthermore, the use of micro-credit developed according to the criteria of Islamic finance highlights, according to independent studies, a positive impact on the conditions and possibilities of the poor (Yunus, 2006, 2008; Zaher & Kabir Hassan, 2001; Champra, 2008). Microcredit developed according to different characteristics according to the countries in which it develops, creates work and generates income for the poor. In the West crowdfunding is well linked with the ability to respond to specific needs, we find a proposal for the adoption of the tool for the development of activities with a direct impact on the community, the application of Istisna, in fact, links to crowdfunfing providing a new tool equity crowdfunding adaptable to the needs of context support (Secinaro, 2017). In the analysis carried out between 1995 and 2009 between conventional banks and Islamic banks, it is possible to highlight how Islamic banks are less cost effective than conventional banks but have higher intermediation costs with higher asset quality and higher capital asset ratios, suggesting a more conservative approach to risk talking. The differences between conventional and Islamic banks are accentuated in comparison with smaller Islamic banks. If we consider the performance of Islamic banks, these are lower than those of conventional banks, but if the ability to respond to risk in times of crisis occurs, it is possible to identify greater capitalization of Islamic banks with higher asset quality and less disinvestment of customers during the crisis. (Beck et al., 2013; Nomani, 2003). This evidence is important and can counter the risk associated with the market interests that led to the global economic crisis.

2.2 Criticism

The criticism of Islamic finance by some authors sees the substitution of interests with high commissions, not leading to a real difference between the Western system and the Islamic one (Sulaiman, 1998; Beck et al., 2013). Other authors have not noted the difference in the preparation of the financial statement with an Islamic religious approach and without (Baydoun & Willett, 2000; Kuran, 2004). Very often the obligation to lend and support the poor by sharing with them the risk linked to Islamic principles does not often find application in Islamic banks (Shahinpoor, 2009). In fact, microcredit towards the poor sees a high risk linked to the consumer that leads to the denial of credit even in banks established on Islamic principles. If Islamic finance overcomes the problem of moral hazard, this can be implemented more easily in small villages where everyone knows each other, and it is possible to know the behaviour of entrepreneurs. This is difficult in the cities. Currently, Islam does not divide mosques, state or business and religion (Angell, 1994), this can be a strong point in the process of identifying and respecting the commitments on the part of Muslim citizens, but it cannot be fully implemented in non-Muslim states where this structure is not present. Another problem linked to the development of Islamic finance in the West concerns the problem of rural areas where the religious, historical aspect still strongly influences choices and finds a social resistance to change from the popular movements (Scott, 1987). The economic growth of Islamic finance could find the first obstacle in the export in Occident linked to the application of international standards that in many countries are still not yet applied and we find a fragmentation in the transposition (Nomani, 2003).

2.3 Sustainability of the Islamic finance

Debt is one of the main problems on which the difficulties of the poor are based. The Islamic response is to eliminate these difficulties and to allow loans available to the poor without interest or side effects. Moreover, Islam foresees the sharing of the risk of failure or success linked to profits or losses of loans. The Islamic banks, therefore, play this role linked to the loan and have the responsibility to respond to the needs of the poor and promoting their welfare (Shahinpoor, 2009). Aggarwal and Yossef (2000) have highlighted how Islamic banks invest more in supporting small businesses that cannot have access to credit in traditional banking systems. Shari'ah governace also significantly influences Islamic finance. It is possible to identify some important paradigms such as the tendency to encourage honesty, integrity, transparency, accountability, and responsibility among the stakeholders in an organization (Hasan and Hassan, 2011). It should be noted that CSR disclousures in Islamic banks are larger and provide more information than European banks (Maali et al., 2003). This is probably due to the relationship that the bank holds in the community. However, we must point out a gap between the ideal and the ethical communication identity for Islamic names to be wide. This considering some elements that should be developed in communication as a mission and vision statement, the board of directors and top management, products and services, zakat charity and benevolent funds, commitment towards the employee, commitment towards debitors, commitment towards society and Shari'ah supervisory board (Hannifa and Hudaib, 2007). In any case, the islaic bank is influenced in drafting the CSR disclousure from the socio-political context in which the bank operates and from the economic opportunities available to the Islamic bank. In CSR literature, the former influence is related to systems-oriented theories such as political economy, legitimacy, and stakeholders theory (Wilmhurst and Frost, 2000; Deegan, 2002; Campbell et al., 2009). Moreover, the research of CSR disclousure development is dictated by the search for an economic return (Cowen et al., 1987; Adams, 2002, Cambell, 2000). Some authors such as Bushman and Wittenberg - Moerman (2012) associate the CSR reports that the bank realizes with a high reputational level associated with a strong profitability and better credit quality of their borrowers, and Wu and Shen (2013) also suggest that the banks that realize CSR they can attract more loans and deposits than non-CSR banks, because CSR creates the image of the brand with which consumers identify themselves. Studies such as that of Garcia Sanchez and Garcia Meca (2017) show that in the long term the existence of CSR activities improve bank's earning quality. Ethics. earning quality and financial performance motivations justify the positive influence of CSR. Tools such as CSRs develop more in those countries where the reform linked to the New Public Management was carried out in the search for means to involve the community and other stakeholders in the evaluation of the results by increasing decision-making skills. Corporate governance remains common, largely conditioned by the market. In particular, the existence of Shari'ah board members with cross-membership, doctorate qualifications and / or internal reputation results in greater monitoring and het grater compliance with Islamic laws and principals, an output of which is higher levels of CSR disclousure. While socio-political factors may restraint the level of CSR disclousure presented by Islamic banks, increasing the level of monitoring within the banks, such as the installation of a Shari’ah supervisory board can counter that and lead to greater CSR disclousure. The results support the theory that companies with CSR increase the ability to tackle the crisis and fight the emergence of fraud related to managerial discretion.

3 Development tips

According to Khiyar (2012), Muslims must be able to compete in the banking sector and respond to changes in the world by implementing banking and financial principles. Islamic finance developed since the 1970s has emerged on the international scene, highlighting what was already defined by the Holy Qur'an and

Sunnah of Prophet Muhammad over 1400 years ago. The embassy of Islamic banks comes from the primary need of Muslims and Muslims to live all aspects of their lives as taught by Islam (Bank, Negara Malaysa, 1994). Many banks even in Islamic countries, despite the possibility from the 80s, to have a double track based on conventional banks and Islamic banks, see the choice to develop only Islamic banks in those predominantly Islamic countries (Nomani, 2003). However, the double track remains accepted and can, therefore, be developed in the western countries.

The bank requires three main ingredients: a large number of players (financial institutions, a wide variety of instruments and an interbank market.) A system based on Islamic finance must reflect the socio-economic values of Islam. through the authorities of the steps to achieve the development of a system based on Islamic finance as a complement or development of traditional Western systems. As it has been in the past, mutual influence can be useful to compensate for the weaknesses of Western systems, integrating them with the strengths of the European systems.

Through the identified literature it is possible to suggest some development phases aimed at implementing and creating a dual banking system that sees the presence of both a Western system and an Islamic finance system. It develops in three phases:

Phase 1: foundation and development of non-banking-based banks Islamic finance institutions.

Phase 2: establishment of Islamic Bank, Govt. Investment Certificate (interest free).

Phase 3: establishment of Islamic Inter-bank Market, Islamic Inter-bank Checking System, new Islamic finance instruments, National Syariah Advisory Council Banking, and a full-fledged Islamic finance system.

The suggested phases are aimed at Islamic countries where the development of a banking system was lacking, and where the need linked to the Islamic residents and at the same time the liberalization of the market led to the need to have a dual model aimed at developing Islamic finance. This model in Western countries as in England has the possibility to be re-proposed having already a well-developed financial system based on the free market. Evidence of the development of successful systems in Islamic countries based on these instruments is Malaysia, where deposits from 1996 led to the break-even point and led to dividends equal to 3% (Khiyar, 2012). The first obstacle that may need to be overcome is the certification of the non-interest bearing, provided by an impartial body recognized by Islamic countries able to verify both the ethical and religious principles and to highlight the presence of the criteria provided by the Investment act of 1982 to enable the bank to meet its liquidity requirements in terms of its holdings of liquid assets. An international offshore financial center with the aim of offshore financial services and products, including others like offshore banking, offshore insurance, struts business, fund management, investment holding, Islamic financing, company management services, and capital market activities can be integrated with existing financial centers in connection with those present in countries where Islamic finance has already been developed and present for some years. All banks wishing to adopt an interest-free system should have a unit of interest-free United Banking (IBU) that follows the following functions:

To attend all aspects concerning the operations of the interest-free banking scheme (SPTF), including policy and procedural matters

To lease with other departments in the financial institution to ensure smooth operations of SPTF

To ensure that all funds pooled into the Interest-free Banking Fund are channeled into financing and investment activities based on Islamic principles

To arrange for training of staff of Islamic banking to ensure the smooth and effective implementation of the SPTF

To arrange for compilation and submission of such returns, as may be required to be submitted to Bank from time to time.

To ensure that all directives and guidelines by Bank pertaining to the SPTF are strictly complied with

To undertake on-going research and development in Islamic banking for further enhancement of the Islamic financial system

The IBU must be headed by a senior and experienced Muslim officer and manned by qualified staff. Furthermore, it is necessary to establish a fund with a minimum amount that can be determined from time to time. The fund must be allocated by the head office of the bank, must be under the control of the IBU for the operations of SPTF, profits, and fees earned by the SPTF can be credited to the fund.

3.1 Financial instruments

Islamic banking is a system that provides financial services to its customers free or riba or interest. According to sharia law, paying interest is prohibited in all transactions (Gait & Worthington, 2007). The absence of riba is one of the main differences with Western banks. According to the Sharia, it is also possible to acquire property in two ways: the former because of sharing laboir and resources, the latter through the transfer of assets as the inheritance of gift (Lewis & Algaoud, 2001). The interests created by the right to property are therefore inconsistent. There are two risk-sharing techniques practiced in Islam. Both techniques are based on a single objective: the sharing of profits through joint participation. These two practices are called Mudaraba and Musharaka. Of these two, Muraba is the most commonly employed risk-sharing method used by Islamic banking and finance (Lewis and Algaud, 2001; Biancone, 2017). A Muraba is a contract between two parties whereby one party provides the funds, and another party provides the labor or entrepreneurial abilities. In Mudaraba, the financier or the lender does not partecipate in the management of the enterprise nor is she/he allowed to request collateral to reduce her/his credit risk. However, the lender is entitled to a percentage of the profit or loss outcomes of the enterprise. Profit must be shared on a promotional basis and not a lump-sum amount, and there is no guaranteed rate of return. Mudaraba has a unique counterpart called Muzarah. Muzarah is usually used in farming where the farmer provides the labour, and the financier provides the land. The land will be used by the farmer for a certain period, and the output of the land will be shared between the farmer and the financier in an agreed proportion. Another risk sharing method used in Islamic banking and finance is called Musharaka or partnership. Under Musharaka, the entrepreneur adds some of her/his own capital to what is provided by the financier. The two sides of the transition are partners and both risk losing their capital. In the case of Musharaka, the profit shared is based on an agreement between the two parties and any gain or loss is divided based on the proportion of each party’s capital contribution. Mudaraba and Mushakara are considered to be the two pillars of Islamic banking and finance according to Ariff (1982). In both methods, the risk is shared by both sides of the transaction, and the participants must follow all Islamic rules and restrictions. Another form of Islamic loan is called Qard al-hasaneh, and it is an interest free loans that Qur’an encourages to make to people who need them (Ziauddin et al., 1983). In this case, the rate of return is calculated on returned based on the actual transaction of goods and services, but not time. Although the traditional tools are based on the Islamic finance criteria highlighted, over time many products have been developed based on the Islamic concept, in Table 2 some examples are given.

Table 2 The new Islamic banking products

S. No.	Product	Islamic Concept
1	Current account	Al-Wadiah Yad Dhamanah
2	Saving account	Al-Wadiah Yad Dhamanah

3	General investment account	Al-Mudarabah
4	Special investment account	Al-Mudarabah
5	Investment in Government Investment Certificate	Al-Qard al-Hasan
6	Investment in shares/share financing	Al-Wakalah or Al-Mudarabah or Bay 'Bithaman Ajil
7	House financing	Bay Birthaman Ajil
8	Vehicle financing	Bay 'Bithaman Ajil or Al-Ijarah Thumma Al-Bay'
9	Working capital financing	Al-Murabahah
10	Project financing	Al-Mudarabah or Al-Musharakah
11	Financing for the acquisition of assets	Bay' Bithaman Ajil
12	Islamic Accepted Bills Import/Purchases Export/Sales	Al-Murabahah/Bay' Al-Dayn bi Al-Dayn
13	Islamic Export Credit Refinancing Pre-shipment Post-shipment	Al-Murabahah/Bay' Al-Dayn bi Al-Dayn
14	Letters of credit facilities	Al-Wakalah or Al-Murabahah or Al-Musharakah
15	Shipping guarantee	Al-Kafalah
16	Letter of guarantee	Al-Kafalah
17	Overdraft facilities	Al-Qard al-Hasan
18	Leasing	Al-Ijarah
19	Underwriting of Islamic bonds	Al-Ujr
20	Bills operations	Al-Ujr/Al-Wakalah
21	Welfare loans	Al-Qard al-Hasan

Source: Reworking of Bank Negara Malaysia instruments, 1994

The Islamic inter-bank money market must be able to understand the inter-bank aspects of Islamic financial instruments, Islamic inter-bank investments, Islamic inter-bank clearing system.

The instrument of microcredit developed in Islamic finance must comply with some guidelines for its operation and can lead to a useful tool for dealing with the economic crisis and the phenomenon of the new poor in the West. According to Brandsma and Chaouli (1998) the development of microcredit must cover the costs of the loan, must have a development of scales to assess the number of loans and customers, institutions that provide microcredit must be able to assess the clientele as it is not of charity, but of loans that must be repaid, microcredit must be financed entirely by private institutions and not by governments. Microcredit must be associated with other services able to meet the needs of families by increasing the number of clients. Furthermore, instruments must be used to allow the payment of payments on time. Maintaining a clear focus differentiated by social or health services must be respected, microcredit seeks to increase job opportunities and financial systems for the poor. At least in the Islamic countries, the number of poor has diminished thanks to the contribution given by micro-credit (Khandker, 2005). The balance sheet of typical Microfinancing (MFI) is shown in table 3. It should provide an initial start-up capital (E) for the institution from the roots, (D), and funds from the external sources (F) the MFI. Other than cash held, the asset side of the MFI. Notes that L equals, where is the number of creditors and is the average size of the loan (Ahmed, 2007). This balance must remain intact to ensure the functioning of micro-credit. Given the economic situation, it is necessary to verify if the instrument can have similar effects in the western countries promoted by the Islamic banks present.

Table 3 Balance sheet of a Typical MFI

Asset	Liability
Cash (C) Loans (L)	Deposits (D) Funds from external Sources (F) Equity (E)

Source: Ahmed (2007)

MFIs need to create some special reserves to insure against the risk arising from negative stocks. The first type would be the takeful reserve (T) created by small weekly/monthly contributions of the beneficiaries. This takeful reserve would be used to support beneficiaries who are unable to pay their dues on time due to some unexpected problems like a natural calamity or death in the family. Second, a profit equalizing reserve (P) will be established by deducting a small percentuage of the profit share of depositors during the relatively profitable period of operations. Moreover, the MFI would build up a reserve (V) from its surplus that can serve ad economic capital. The reserve can be used to cushion any negative shock that may affect the financial position of the institution adversely. The cash (C) will comprise different types of non-interest bearing financial instruments. Islamic MFI will hold a combination of low risk fixed income asset (F) along microfinancing activities (M). Microfinancing will include investments (I) and qard (Q) a bank deposit, which is considered a loan to a bank for its use but which must be returned to the depositor upon request. The budget of an MFI should, therefore, present the structure of table 4 according to the waqf-based model.

Table 4 Balance sheet of a Waqf-based Islamic MFI

Asset	Liability
Cash (C)	Deposits (D)
Assets (A)	Qard Hasan deposit (Q)
Low risk assets (F)	Waqf certificates (S)
Microfinancing (M)	Takaful reserves (T)
Loans-Qard (Q)	Profit Equalizing Reserves (P)
Investments (I)	Reserves/Economic Capital (V)
(murabahah, ijarah, salam, sisna, mudarabah, musharakan)	Capital-waqf (W)

Source: Ahmed (2007)

3.2 Similarities and differences between banks

The products offered by Islamic banks are the same as those offered by conventional banks (demand for deposits) and other instruments structured in a similar way with the conventional products offered that coincide with the characteristics related to risk-sharing in Islamic Banking such as leasing products (Beck et al., 2013; Ahmed, 2007). The transaction costs of the agencies are among the main problems of entrepreneurs and can be mitigated by the banks in both cases. The problem of the bank balance sheet and the respect of depositors is one of the current problems of all banks, which must have sufficient coverage to deal with the risk associated with loans and deposits. It is shown that Islamic banks are less efficient but have a greater intermediation ratio, a higher asset quaity and are better capitalized than traditional banks. The high capitalization and the best asset quality helps the Islamic banks to overcome the economic crises compared to the conventional banks. Table 5 shows the main comparison between Islamic banks and conventional banks.

Table 5 Comparison of Banking Frameworks

Characteristics	Paradigm Version of Islamic Banking	Conventional Banking
Nominal value guarantee of:		
Demand Deposits	Yes	Yes
Investment Deposits	No	No
Equity based system where capital is a risk	Yes	No
The rate of return on deposits	Uncertain, not guaranteed	Certain and guaranteed
Mechanism of regulating final returns on deposits	Depending on Banks's performance/profits from investments	Irrespective of the bank's performance/profits from investments
PLS principle is applied	Yes	No
Use of Islamic modes of financing: PLS and non-PLS modes	Yes	N/A
Use of discretion by banks regarding collateral	Possible for reducing moral hazard in PLS modes. Yes, in non PLS modes	Yes always
Banks 'pooling of depositors' funds to provide depositors with professional investment management	Yes	No

Source: Errico & Farahbaksh (1998)

All deposits, including investments, are always explicitly or implicitly guaranteed, in some cases the capital value guarantee is formalized in writing in the law and in the regulations, in other cases it is implicitly linked to the authorities, banks and the public. Furthermore, the principles of PLS are never strictly applied. There are several cases in which the PLS principles are not met. In some cases, the bank guarantees the expected rate of return on investment deposits. In many cases, this return is not connected to the bank's profits. In other cases, the PLS principal is partially implemented through complex formulas, to maintain the link between the return of financial assets and profits generated by bank investments and deposits.

3.3 The presence of supervisor and professionalism in the development

There is no doubt that the prudence of regulation and supervision is necessary for the progress of the path of an international financial system. In particular, the Basel Committee on Banking Supervision (BCSB) goes in this direction. Regulation and supervision cannot be applied to all institutions and to financial institutions, to the results of off-balance-sheet accounts, bank secrecy standards, and the difficulty faced by nak examiners in accurately evaluating the quality of banking assets (Champra 2008). Islamic finance should, in its ideal form, help raise the share of equity in business and of profit and loss sharing (PLS) in project and ventures through the musarabah and musharakah modes of financing with a better balance between debt and equity substantially, risk sharing would be greatly enhanced and financial crises sharply muted (Rogoff, 1999). The meaning of audit can vary and turn into the case of the Islamic financial model. The conventional audit is not expressed and designed to uncovering management frauds (Elliot and Willingham, 1980). But if the auditor is diligent in his work of evaluating the statements according to the general accounting principles, the obligation is reached. The problem arises of the verification of the responsibility of the management concerning the bad management or determination of the real profit. On this, the audit has no responsibility in the verification (Lechner, 1980). In the case of Islamic finance, the absence of a secondary market for financial instruments creates a high difficulty in managing its liquidity. The need to build markets aimed at increasing profitability and competitiveness also defined by the Islamic Financial Services Board (IFSB), the International Islamic Financial Market (IIFN) and the Liquidity Management Center (LMC) is a necessary step requiring high capacity and copyrights to develop the Islamic financial market (Chapra, 2008). The IIFM will enhance cooperation in the field of finance among Muslim Countries and financial institutions by promoting product development and harmonizing trading practices. This will serve as a catalyst for the development and promotion of a large supply of Sharia's compatible financial instruments.

4 Conclusion

The possibility of having systems between Islamic and Western countries oriented towards the free market makes it possible to reduce the possibility of developing the financial instruments and models of Islamic finance. The elimination of poverty, social injustice and the correct distribution of income are among the princes of Islamic finance. The Islamic financial system should also reflect these objectives of the Islam and is combined with objectives defined by some Western supranational bodies. The possibility of developing financial models capable of giving opportunities to the poor through the Islamic finance model allows an opportunity for commercial development and the countries in which it is implemented (Ahmed, 2007). The equation between economic systems between England and some Islamic countries where reform is underway according to the theory of new public management facilitates the application of an Islamic finance system even among Western countries. The scientific evidence has identified Islamic banks as successful models about both the resistance to market changes, the economic crisis, and greater development of CSR disclousure tools that allow an increase in earnings and the involvement of the community in which these banks they are developed greater than traditional banks. Reigning a non-clear separation between communities, banks and mosques, it would be appropriate to adopt systems of consolidation and representation of information with new Western CSR tools already used in public group settings such as Popular Financial Reporting (Biancone et al., 2016) to increase transparency, effectiveness of results and the growth of the effects generated in a western context. The unfavorable legislative context could be varied to develop further the advantages that Islamic finance can offer. Highlighted the uncertainty generated by Brexit on interest rates on both the system is significant the contribution that Islamic finance could provide in a country where there are already some Islamic banks. The offered tips related to the main Islamic finance tools offer rapid steps for the expansion of Islamic finance in the West, possibly maintaining a dual reality. Surely, we will have to deal with the resistance to change, but this is part of a process aimed at sustainability, community growth and support for work which, following the Brexit, is necessary to face the processes of market change.

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